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Restaurant Business

Stouffer brass sets deluxe image

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LITELINE

Restaurant Business

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Odds of the audit game

by Irving L. Blackman

The chances of losing the IRS version of Russian roulette, the audit game, continue to decrease in favor of the taxpayer. According to IRS figures, it audited 1,418,787 returns in 1984, down only 9,000 from 1983. But when you add in the fact that total returns filed in 1984 increased, the chances of being audited decreased substantially.

To give you an idea of the massive task the IRS has each year in tracking down tax cheats, the Service received 668 million information returns in 1984, 568 million of those on magnetic media (computer tape).

The chances of having your business or company audited decreased dramatically in 1984. As a general rule, the smaller the business, the less likely were your chances of hosting an examining agent in 1984.

Installment sales

Sales are the lifeblood of business. Unfortunately, when you extend credit to your customers, sales result in accounts receivable, not cash. The profit portion of those receivables is subject to income tax.

Stop for a moment. Estimate two numbers—the amount of your receivables at year-end and the amount of profit included in those receivables. How would you like to defer the tax on that profit?

You can. A little known change in the tax law a few years ago opened the door to all businesses that sell property. Just adopt an installment sales plan, which means you must bill your customers so two or more payments are required.

Let's look at a few plans.

- The custom in your industry is to bill net 20 days. You adopt an installment sales plan that provides 50 percent is due in 10 days, 50 percent in 30 days, and if the first payment is not made on time, 100 percent is due in 20 days.
- You give a two percent discount for payment within 30 days, net payment required within 60 days. You adopt an installment sales plan that calls for 49 percent to be paid in 15 days and the other 49 percent to be paid in 45 days. If the first payment is not made, then 100 percent is due in 60 days.

In both examples, neither you nor the customer gains a cash flow advantage or disadvantage. What if some, or even all of your customers, ignore the two-installment requirement? No problem—as long as your invoices require two payments, your installment plan qualifies for the deferred benefits.

Tell your professional to check out *Section 453A*.

The author, an attorney and a certified public accountant, is senior partner at Blackman, Kallick and Co., Chicago and author of "Winning the Tax Game."

Your chances of being audited by the IRS.

Total Personal Income	Chances in 1000 of Being Audited
$10,000 to $25,000 *(w/ itemized deductions)*	14.9
$10,000 to $25,000 *(w/out itemized deductions)*	6.3
$25,000 to $50,000	20.5
$50,000 and over	40.0
Non-Corporate Business	**Chances in 1000 of Being Audited**
Income—Schedule	
Under $25,000	14.3
$25,000 to $100,000	25.6
$100,000 and over	53.0
Corporations (in assets)	**Chances in 1000 of Being Audited**
Under $100,000	11.2
$100,000 to 1 million	25.9
$1 million to $10 million	93.0
$10 million to $100 million	224.7
$100 million and over	578.3